A CAHNERS PUBLICATION DECEMBER 1990

graphic arts monthly

THE MAGAZINE OF THE PRINTING INDUSTRY

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A Mixed Outlook For the New Year

Though Vulnerable, Printers Rely On Industry's Basic Strengths

Also: New Market in Mexico, 1991 Planning Guide

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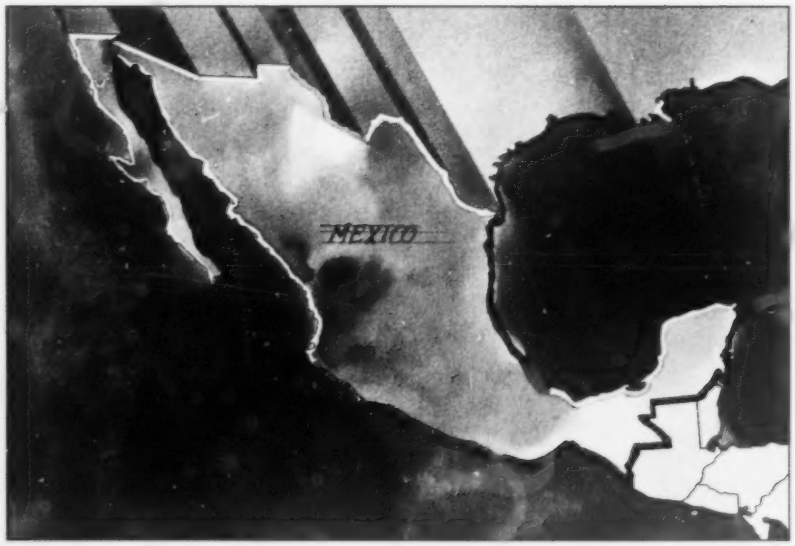

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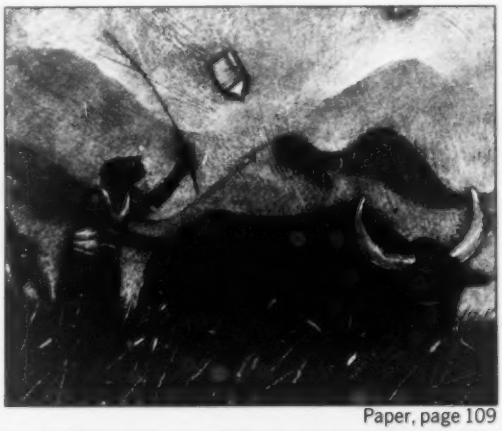

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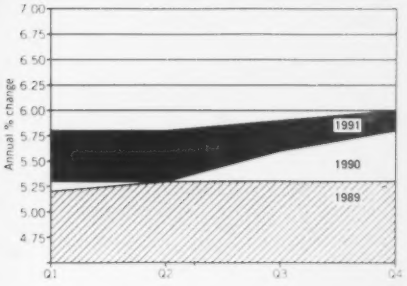
Slack Labor Force Growth Slows Unemployment



Employment growth in the U.S. has slowed substantially in recent months. Since the economic expansion began in late 1982, the economy has added almost 2.5 million new jobs a year. Over the past year, however, employment levels have been virtually flat.

Despite this slow growth in employment, the unemployment rate has remained low. The unemployment rate has ranged from 5.2% to 5.5%, only recently increasing as high as 5.7%. The reason unemployment rates have not risen more (with slow employment growth) is that the population looking for work has grown equally slowly. From third-quarter 1989 to third-quarter 1990, the civilian labor force in the U.S. increased a mere 0.8%.

The regions of the country seeing labor force increases well in excess of national trends are the Pacific Northwest and Oil Patch areas; the labor force in every state in these two areas is growing at, or well above, national growth rates. These regions are also supporting the fastest employment growth.

In the 12 months ending in August 1990, total nonagricultural job growth averaged 2.2% for the nation as a whole. On a state-by-state basis, growth ranged from a high of 7.9% in Nevada to a low of -2.8% in New Hampshire. States showing the fastest growth were those located primarily in the South and West regions, while those showing the slowest growth were the Northeast states.

Job growth has been led by the service sector. Over the past year, the service sector added 1.1 million jobs. This accounts for over half of the total employment increase of 1.9 million. Meanwhile, there continues to be an employment decline in the construction and manufacturing sectors. Moderate job growth has occurred in the transportation, retail and wholesale trade, and financial industries.

Paper prices continue to fall. Transaction price data shows prices of directory-uncoated groundwood, offset-uncoated white, and bond-uncoated white papers decreasing substantially. Expect downward pressure on paper prices through the beginning of 1991. Inventories relative to shipments shot up during the first half of 1990, indicating overproduction at the mills. Paper producers will be trying to trim stocks. As such, prices will remain at their current low levels for a while.

PAPER TRANSACTION PRICES

				Annual % Change		
Paper Category ($/ton)	**Q3/89**	**Q2/90**	**Q3/90**	**1990**	**1991**	**1992**
Newsprint—30 lb., East	$ 553	$ 535	$ 565	-2.1	6.6	-2.0
Directory—uncoated groundwood, 22.5 lb., white	780	753	800	-4.9	6.6	4.1
Supercalendered—uncoated groundwood, 34 lb.	830	800	800	-2.1	4.0	8.8
Offset—uncoated groundwood	635	635	645	-2.4	3.0	7.4
Offset—uncoated, white, 50 lb.	820	820	827	-4.2	1.1	8.3
Coated—No. 1, 70 lb.	1610	1610	1610	-0.1	2.5	6.5
Coated—No. 3	1250	1250	1250	0.3	3.4	9.0
Coated—No. 5, 34 lb., roto	965	940	940	-3.7	1.3	6.2
Bond—uncoated white, No. 1, 20 lb.	1100	1090	1090	-1.2	0.9	8.5
Bond—uncoated white, No. 4, 20 lb.	1040	900	900	-8.9	6.0	7.3

Source: Purchasing magazine's Transaction Pricing Service

graphic arts monthly

A Mixed Outlook For the New Year

In this spotty slowdown, printers rely on basic strengths of the industry.

Are we in a recession, or what? Our senses tell us that something is wrong. Printing sales are soft, people are nervous about signing contracts, and orders are smaller. But while business bad news is everywhere, many printers are busier than ever, and government preliminary economic reports for the third quarter showed dropping unemployment, rising auto sales, and surprisingly strong annualized GNP growth of 1.8%.

The simple answer is: no, we're not (technically) in a recession; it's possible we may not even get into one. But what we're looking at for 1991 is the makings of a spotty recession, varying by region and industry. For small-business industries like printing, which mainly operate on a local level, a big drawback of GNP figures is that they are averaged national aggregates; this means that, particularly in slow periods, if some regions or segments are doing well, others necessarily must be doing very poorly.

Moreover, GNP is only one yardstick, and because the term "recession" carries such an emotional charge, people's perceptions as consumers are crucial during a slow-growth period. To be sure, economic malaise can take various forms, so we don't have to undergo a bona fide recession to endure tough sledding.

By Bill Esler
Midwest Editor

Salem Krieger

Economists are divided on the near-term future of the printing industry.

In fact, we are now seeing a credit-crunch recession. Re-regulated bankers are tightening the reins and calling back lines of credit from businesspeople, who are, meanwhile, having a harder time than ever collecting from their customers.

We are also seeing a balance-sheet recession. Existing assets, particularly those based on real estate, are dropping in value. This makes businesses poorer on paper, even without a drop in sales.

The general consensus is that, over the next year, the printing business, like the nation's business as a whole, can expect to contract even further; sometime late in 1991 or early in 1992, it will spring back. Timetables follow two very divergent scenarios—one upbeat, the other rather less hopeful; both predict a rainbow at the end.

Additionally, conversations with economists, financiers, and printers yield three very different points of view.

Printers' comments tend to side with Peter Whiteside, president of Northern Banknote, a 100-year-old intaglio printer in Countryside, Ill. Whiteside notes, "I'm not an economist. I'm just a person trying to make a profit and keep a business running. It's a tough business, but I'm very happy I'm in a niche. I would like to expand that niche." He expresses a fundamental faith of all printers: that well-run businesses will persevere through the downturn, and prevail with recovery.

(Continued on p. 48)

In fact, printers believe the answer to recession is to set a goal of expansion while pruning back on costs.

"Everybody is very conservative in their outlook for next year," says Thomas Watson, president of Paramount-Miller, Jacksonville, Fla. "It's a function of concern over the Middle East, the economy in general, and more dissatisfaction and concern that Washington doesn't seem to recognize that business conditions aren't so red hot."

Printing industry economists, who were contacted in October and November, are mostly hopeful. Gathering data from the industry itself, and laying it against a backdrop of the macro economy as a whole, these forecasters see underlying strengths that may elude the untutored eye.

Printing trails the ups and downs of the general economy by as much as a year, according to current information. Downturns are felt later in the cycle, as are recoveries. But this connection may be changing.

"If you look at the 1973-75 recession, there was a downdraft in printing. In the 1981-82 recession, you don't see any downdraft; you see a sideways movement in output," says Michael Paslawskyj, vice president of Economic Research for the CIT Group, Livingston, N.J. "I don't know at this point whether commercial printers are in a new regime, meaning they have become counter-cyclical and aren't going to be affected by recession, or whether that was a unique circumstance."

Paslawskyj says printing may be the cost-effective alternative to broadcast media, and that, in a recession, can improve its share of the media dollar.

It could also be that printing moves quickly to the busiest points of a mildly contracting economy, shielding itself from the extremes suffered by, say, steel and automobiles. Printing is also one segment of the economy that straddles strongly growing services and more stagnant manufacturing. Its performance in the coming year will bear out the truth of these theories.

"Everybody is very conservative in their outlook for next year." ***Thomas Watson, President, Paramount-Miller***

Printing has been growing half again as fast as the GNP because of its key role in selling goods and services, packaging them, and documenting them. In the last two decades it underwent a massive structural change; the shift in the 1970s from letterpress to offset and the evolution of computer prepress in the 1980s are the outward signs of a movement to more productive manufacturing.

By 1989, the Department of Commerce found that, as a percent of value of industry shipments, wages of production workers had dropped remarkably, from 24% to 18%, versus what they were in the early 1970s. Printers had thus become more efficient through their use of modern equipment (and wages did not rise as fast as did other costs).

But printing still operates within the economy as a whole, and printers are reporting reduced growth and flattening sales, lower margins, and competitive pressures. The principal engine is advertising, which accounts directly for 60% of the industry's volume.

"And advertising revenues revolve around psychology," says the Department of Commerce's Bill Lofquist, "psychology in the form of hard statistics: gross sales and corporate profits."

From these are calculated advertising budgets for the following year; hence printing, like advertising in general, trails the economy, since its principal base is funded by last year's results, interpreted into this year's budget.

"Things have not been as bad as others projected," says Lofquist, who's perpetually optimistic, and believes the 1990 growth rate for printing will be around 3%. For 1991, he predicts a 3.5% growth rate, a figure founded on belief in a strong recovery in the second half.

"I'll admit that the magazine industry is somewhat sour, but catalogs and direct mail have done reasonably well," Lofquist says. While financial printing is a mess, "Yellow pages have been continuing strong, and directories in general are strong." Also doing well are label printing and hardback books, particularly for export.

A major element in all this is consumer confidence. "The world hates uncertainty," Lofquist notes, "especially advertisers." Earlier this fall, there was rampant uncertainty about the federal budget and escalating oil prices and interest rates.

Naturally, consumers and businesses drew back. National advertising is perhaps contracting more than local advertising, though direct marketers made a broad push to capture the holiday shopping surge.

"Advertisers themselves aren't saying what they might do," notes Barbara Gora of the press manufacturer Rockwell International, in Chicago. "They all seem to be waiting to see what their competition will do. If they get strong sales from holiday mailings, they will probably continue to promote in the spring. It seems like advertisers are using one season to make some next-season decisions." Gora says press sales have tightened for larger equipment, expanded for smaller equipment.

Despite these uncertainties, and pessimistic statements from many quarters, "We're still not forecasting a recession by technical terms," says Deborah

Selsky, an economist with Cahners Publishing, Newton, Mass. Three consecutive quarters of negative growth, the official signal of a recession, have not been seen, though with 0.4% GNP second quarter, the economy wiggled around zero growth. On the other hand, those who remember the 1986-87 period recall economists forecasting a recession that never happened.

One strong factor remaining is exports, assisted by the weakened dollar, which makes U.S. goods a bargain. Book exports are doing well, says Selsky, registering double-digit growth, as well as all the other goods that required printed documentation.

The downturn, which Selsky sees as regional and spotty, will not hurt direct-mail printing: "Direct mail is a very successful marketing method." For the economy in general, interest rates will drop and stimulate business. "Once that happens and people start to gain more confidence in the economy, businesses will become more confident, and it will give them incentive to start making investments and do some buying again," Selsky says.

Other favorable factors: low unemployment and low inventories. "It's not just the past quarter that the economy as been slow," says Selsky. "It's been slow for more than a year. Businesses are prepared. They aren't carrying huge inventories."

Economist Ron Davis from the Printing Industries of America, Alexandria, Va., said in October, "The economy is probably going to have negative growth in the fourth quarter, sort of a mini-recession, then start to climb out of it by first quarter 1991."

Though he called it highly unlikely, Davis did describe a worst-case scenario arising from a shooting war in the Mideast and $50-per-barrel oil. "Printers would have a very tough time of it. The probability is unlikely, but it's time for printers to do whatever they can to make certain they have their finances under control, plus some safety net if their sales turn down."

A war and a sustained jump in oil prices would cause a downturn through 1991. (The latest thinking is that even a war would not prevent the Saudis from pumping enough oil; they have already met the shortfall caused by the blockade of Iraq/Kuwait.)

A recession could work to the advantage of printing, as its more targeted vehicles become the method of choice for agencies and promoters. That's the thinking of Andrew Paparozzi of the

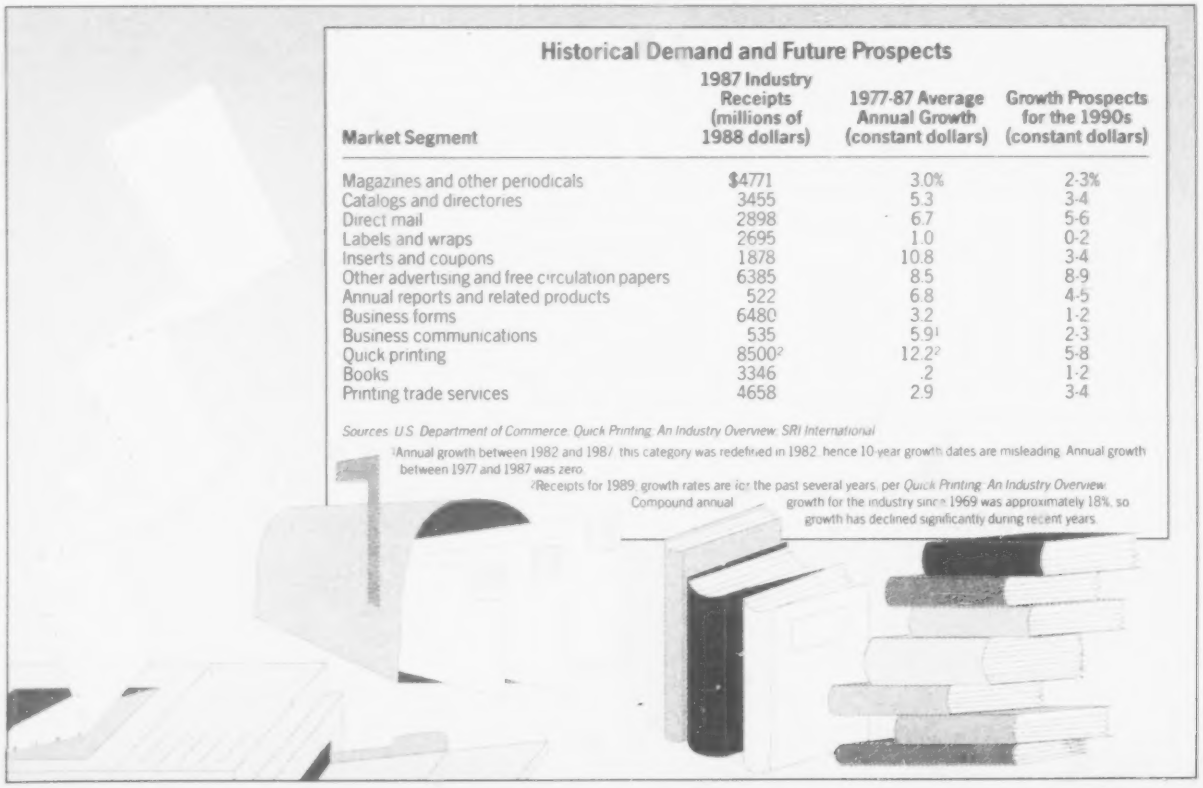
Historical Demand and Future Prospects

Market Segment	1987 Industry Receipts (millions of 1988 dollars)	1977-87 Average Annual Growth (constant dollars)	Growth Prospects for the 1990s (constant dollars)
Magazines and other periodicals	$4771	3.0%	2-3%
Catalogs and directories	3455	5.3	3-4
Direct mail	2898	6.7	5-6
Labels and wraps	2695	1.0	0-2
Inserts and coupons	1878	10.8	3-4
Other advertising and free circulation papers	6385	8.5	8-9
Annual reports and related products	522	6.8	4-5
Business forms	6480	3.2	1-2
Business communications	535	5.9[1]	2-3
Quick printing	8500[2]	12.2[2]	5-8
Books	3346	.2	1-2
Printing trade services	4658	2.9	3-4

Sources: U.S. Department of Commerce, Quick Printing: An Industry Overview; SRI International

[1]Annual growth between 1982 and 1987; this category was redefined in 1982, hence 10-year growth dates are misleading. Annual growth between 1977 and 1987 was zero.

[2]Receipts for 1989; growth rates are for the past several years; per *Quick Printing: An Industry Overview*, Compound annual growth for the industry since 1969 was approximately 18%, so growth has declined significantly during recent years.



Annabelle Carter

National Association of Printers and Lithographers, Teaneck, N.J. But he also warns about the credit crunch and issues of high leverage: "Everyone says you should expand advertising in a down market. Of course you should, but if every dime you have is going to pay off debt, you don't have the luxury of advertising."

Acquisitions experts tell their part of the story with a different ending. For them, the next year or two will be busy. "Printing sectors operating at minimal profit margins will see a lot of struggling companies," predicts Skip Serell, an investment professional with Keeley Management Co., Philadelphia. With general commercial business dropping 15% to 20%, as it may for awhile, Serell feels the leverage that these printers characteristically have begins to work against them.

For niche players with higher profit levels, things will be tolerable, though for publication printers and manufacturing-linked packaging and labeling, business will be soft. "But commercial printers operating at tight margins will have a tough year," Serell says.

He predicts a downturn through next year, possibly as long as 36 months. "With the statistics the government is publishing, they are kidding themselves," he says. "They say the economy grew 1.8% last quarter, but that's not what is happening in real time."

Some feel a broad-based downturn began this quarter, and will continue through June. Recovery will follow, permitting the year to break even. Afterward, a period of several years of sustained growth will follow.

Unknown factors—war in the Mideast, Fed policy, foreign investment in U.S. treasury bills—will affect the depth of the downturn, perhaps extending and deepening it. But afterward, recovery will be equally strong.

"The world hates uncertainty, especially advertisers." ***Bill Lofquist, Department of Commerce***

The most pessimistic viewpoint sees an extended contraction of the economy, as the nation's economic ills collapse upon themselves. The credit crunch, worsened by banks under tighter scrutiny, could slow down business all over.

Consumer confidence, having taken a nose dive, will continue downward, as thousands are laid off by continuously weakening sectors of the economy, the negative effects rippling through businesses in widening circles. This could result in a couple of years of tough going, after which a leaner business climate and work-hungry population bring business back to life.

But the scenarios are nothing more than educated guesses. No one is certain what will happen and when.

A recession can be fed by rumors that snowball into self-fulfilling prophecy. The mechanic here is consumer confidence, walking hand-in-hand with business confidence. When consumers hold back, sales fall sharply. Business plans get curtailed. Ad budgets are cut back, and even current expenditures, though budgeted, are quickly cut.

Another matter worth considering, too, is the impact of the cost of environmental concerns on direct manufacturing costs. Batten down the hatches, advises Keeley Management's Serell, adding, "By and large, my printing clients don't read the handwriting on the wall early enough. Their options begin to close at an accelerated pace."

Also during 1991, look for acquisitions and market expansion. There will be bargain prices on used equipment, and marginal printing companies will be looking to sell.

"Among the people we survey, you see people not only protecting themselves, but actually thriving," says NAPL's Paparozzi. They take advantage of the downturn to grab market share and to add personnel. "In my mind, a manager's litmus test is being able to take the company out of a downturn stronger than it went in. And there are printing managers doing just that."

"Those in the catbird seat have a broad base of printing abilities, good management, and cash in the bank," says Serell. Accept the inevitable and sell now rather than later. "For the marginal players, they should come to grips earlier with a plan." Trying to tough it out against great odds means only that your company's value will erode.

Acquisitions consultant Jerome Van de Water advises marginal printers to keep in mind the potential length of the coming downturn. "Would you like adverse effects to be reflected in your balance sheet when it comes time to sell?" he asks rhetorically.

Van de Water, who works with Heller Equity Capital Corp., Chicago, says he seeks out niche players with good fundamental business strengths, mostly in the packaging related businesses. Compared with a printer going it alone, "We're in a better position to ride out a slight downturn," he says of Heller's backing.

Two things making business acquisitions attractive now are the relatively low cost of capital and the tractability of labor. "Workers are recognizing that now is not the time to make big changes," he notes. "And interest rates have not gotten out of hand." This permits buyers of all stripes to offer healthy deals for businesses ready to sell.

"There are deals out there, bargains," advises CIT's Paslawskyj. "You will see some in-

crease in bankruptcies among printers. There could potentially be some bargain-basement prices out there for equipment."

Cahners economist Selsky advises printers not to rely on traditional markets. "Go out and get new business from new sectors, the growing sectors," she advises. Keeley Management's Serell agrees. "There certainly are pockets that are going to do quite well. The food industry will continue to do quite well, and there is a lot of printing associated with it. The pharmaceutical and health care field will do well. It's the low-end manufacturing businesses that will have trouble."

Though the printers we interviewed figured on making progress during the pending downturn, "We won't all be okay," cautions David Dillon of Meyers Printing, Minneapolis. "Everybody figures it's going to be somebody else's lunch that'll get eaten." Survivors will be better businesses, operating more efficiently, producing better quality. "I guess that's what it's all about," Dillon says.

For all the dire predictions, printers around the country are surprisingly hopeful. A random phone survey among major regions found that printers expect to make the most of 1991.

The Northeast is described as fully recessionary, a situation it entered months ago. "All the things that were making the economy grow just stopped," says James Haughey, vice president of research and economics for Cahners Publishing.

Concentrations of financial printers in New York have suffered mightily with declining stock business and the eroding earnings of banking and finance business. With its eastern location, however, Peake Printers of Hyattsville, Md., is doing okay, even though, "Our sales have declined," says Jay Rupard, president.

The 180-employee company, with sales of $27.5 million, finds customers scaling back. "What was six colors is now four. Instead of 48 pages of notes before getting to the financial pages, annual reports now carry 24. This means the profitability of any given job has been reduced. We're not in the red; we're just not operating at the same level of profitability as we were a year or two ago," Rupard reports. He expects tough times until the beginning of 1992.

Yet Peake is proceeding with its capital investments, having appropriated $3 million for a seven-unit sheetfed press, desktop publishing services, and a color prep system. "The market hasn't stopped us," says Rupart. "When things really get rolling again, you're going to have to be ready for it."

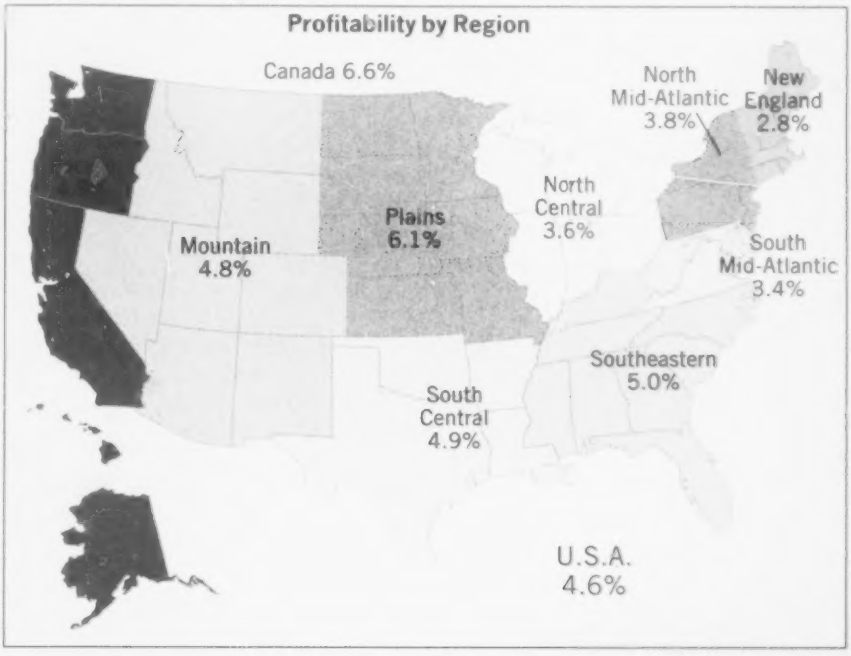
Rupart will cut some overhead, reduce overtime, and offset declining sales with increased productivity. "But as far as technology is concerned, you're either in the game or you're not."

The oil-patch states are only just recovering from the oil price crashes of the 1980s. The oil-price rises of late have been incidental to this improvement, which is more fundamental, since the region has been diversifying.

For 45-employee Katz & Lee Printing, a commercial shop in Irving, Tex., "Business has been good the last few months," reports Norman Hartman, sales vice president. "The overall year is up a little bit. Companies are still moving into the Dallas area."

Hartman says his company is pushing aggressively for business: "We're going to get our fair share out there." But equipment additions and expansion are on hold for now, except perhaps for some new prepress equipment.

Meanwhile, the Northwest is booming. Trade with Asia and the rise in aerospace sales will keep the economy stable through next year. Boeing in Seattle is said to have 10 years of



contract backlogs. Seattle's United Graphics, with 100 employees, is doing well, and Charles Steeley, president, finds that his own experience differs from what he reads in the papers.

"We've been busy through 1990," he reports. "While many printers may not be doing business directly with Boeing, the company obviously has an influence on the overall economy here. There are high-tech businesses in the area that are very successful, and this has a positive influence on the business of the printers.

"The 'doom and gloom' in the news, some believe, is a self-fulfilling prophecy," Steeley continues. "I don't sense it. But the stories are going to affect business, because people are going to tighten up and pull back. I'd say everybody is moving cautiously forward, without any idea of what may be ahead of us."

"We will be doing our small part to improve the economy." ***David Dillon, President, Meyers Printing***

In the Southeast, business is seen as stable, but recession is looming, the result of real estate woes. Population growth, which fueled expansion in the mid-'80s, has dropped off. Yet the selection of Atlanta for the 1996 Olympics, rebuilding from Hurricane Hugo, and the perpetual draw of Disney World will help salve these difficulties.

Thomas Watson, president of Paramount-Miller in Jacksonville, Fla., says things are very competitive. "I don't see a lot of real strength anyplace. Projects are there, but everybody is having a budget squeeze. It's very competitive: people want it better, faster, cheaper. I can't honestly say whether pent-up demand exists and people are sitting on their hands, loathe to spend money," Watson says. His $10 million company specializes in annual reports, promotional advertising, and financial printing.

In the Midwest, the economy is still strong, relying on exports of farm products, machine tools, and manufacturing equipment, particularly to aid the rebuilding of Eastern Europe. The weakened dollar is a boom for exports. Five Ohio cities were listed among the 10 fastest-growing metropolitan areas during the second quarter.

Midwestern printer Hiram Phillips, Springfield, Ill., says his market is stable. "I expect to do very well next year in terms of volume," says the president of Phillips Brothers. Printing books and directories, mostly for universities, Phillips' 110-employee company enjoys a consistent economic base strongly tied to state government. "We're a fairly stable area because we have almost no industry, and are dependent on government. That just goes on and on."

Further north, Meyers Printing in Minneapolis expects to proceed with an aggressive expansion plan that includes a new 187,000-sq-ft facility, and new equipment. President Dillon says Meyers has two niches: flexo and letterpress labels, and high-quality sheetfed printing. Dillon predicts company sales will grow $2 million, to $26 million, next year.

"If we are just one example of the economy in general," says Dillon, "during the next year, muddling along, we will, in fact, improve our quality and our productivity. We've got some more automated equipment coming, and we're busy working on statistical process control. We will be doing our small part to improve the economy."

Despite pessimistic outlooks, which Dillon says are "essentially accurate," he is bullish on the long-term prospects. "I look forward to no growth in the economy for the next year, and I would expect a return to growth after that. I'm a real believer in the peace dividend, the ending of the Cold War, and the ending of the need to spend hundreds of millions of dollars on the military."

Two larger printers, with more diversified customer bases than most, speak from a platform of great financial stability. Quebecor's Dennis Meyer, sales and marketing vice president, acknowledges a softening in the economy. "Printing has a reputation for being somewhat recession-proof," notes Meyer. "I expect that will again be the case. But some printers are already on the edge and may be forced out. Those with the strength and the resources to weather the storm will emerge stronger."

At Bertelsmann's Berryville Graphics, Wayne Taylor was recently named president. "We're optimistic," he says. Having recently launched the Kid Print division to make thin hardbacks for children, he says, "Our capacity doesn't require a significant change in the marketplace to fill up. Although I anticipate a flat market for next year, there are enough opportunities for us to meet our volume plan for Berryville Graphics."

He adds, "The biggies of the industry will certainly weather the storm. But the organizations that are highly leveraged—printing companies that were purchased through LBOs or radical and aggressive buyouts where there is a lot of debt to service—they're going to find themselves in trouble."

The bottom line for '91: leveraged firms are particularly vulnerable, but well-run businesses will persevere through the downturn, and prevail with recovery. Having a specialized niche market as your main source of business won't hurt, either. But mainly, we'll all just have to grit our teeth and bear it.

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Mexico

Despite an ocean of distance, Americans seem fixated on Europe—on Eastern bloc countries converting to free-market economies, and on 1993 when a widespread relaxing of borders and trade restraints in the European Economic Community is to create a sort of United States of Europe.

But recent rapid developments much closer to home, in Mexico, with whom the U.S. has a 2,000-mile-long border, may well set the stage for a three-nation North American trading bloc that, for the U.S., is full of economic potential.

Mexico is already America's third-largest trading partner after Canada and Japan; mainly as a result of quick, effective moves by the two-year-old presidency of Carlos Salinas de Gortari, the country appears ready to make the most of its geographic location, its proximity to the world's largest and richest market, and the number, skill level, and pay scale of its eager but underutilized labor force.

Changes in Mexico are as fundamental as the better-known process of *perestroika.* The country has been run by the Institutional Revolutionary Party since 1929; until recently, it had a heavily socialized economy, coupled with stiff restrictions on foreign ownership and a protectionist tariff schedule, which made doing business in Mexico difficult.

This isolationism is easy to understand in light of Mexico's history. The year 1992 marks the 500th anniversary of the arrival of Christopher Columbus, and thus Europe, in the Western Hemisphere. Columbus was followed in short order by a swarm of adventurous Spaniards seeking the same thing he was: gold. One of the more aggressive of these *conquistadores* was Hernan Cortes, who dropped anchor at the site of present-day Vera Cruz, less than 20 years after the first voyage of Columbus.

Jana Bremming

The subsequent turmoil in Mexico lasted 400 years, during which time it suffered, not only alternating home-grown dictators and revolutionaries, but invasions and incursions. Also during this time, certain tendencies toward pessimism and isolation began to manifest themselves in the Mexican character.

But now the country is opening up, both as a manufacturing site for foreign investors, and as a consumer market. The natural tendency is to think of Mexico as part of the new North America; total population of the three partners, based on 1989 data, is 362 million, with combined gross product of $5.9 trillion, and total trade of $225 billion.

Data for this report were extracted from a number of sources. Principal among them were the Mexican Government and Banco Nacional de Mexico. Information on U.S.-Mexican trade balances was taken from an article by Paul Dacher in *Business Maerica,* April 23, 1990, Copyright U.S. Government Printing Office. Information on the Mexican printing industry comes from a report prepared by Caroline Verut of the U.S. Department of Commerce's United States Trade Center in Mexico City.

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By Peter Johnston
Special Projects Manager

Mexico: A Period of Growth

With an area of 760,373 square miles, Mexico is the 13th largest country in the world and the fifth largest in the Western Hemisphere (after Canada, the U.S., Brazil, and Argentina).

The country's 1990 population is somewhere between 86 million (Banco Nacional de Mexico) and 90 million (Mexican federal government). By population it ranks 11th in the world, and third in the Americas (after the U.S. and Brazil).

Mexico has a population density of 40 inhabitants per square kilometer, slightly above the world average of 38. This in itself is not bad news, but the problem regarding the Mexican population is its distribution and growth. Improvements in nutrition and medical care after World War II drastically reduced the country's mortality rate; this, combined with an unusually high birth rate, caused population growth that at its peak in the 1960s was 3.5% per year. As a result, between 1950 and 1970 the population of Mexico almost doubled (the annualized growth rate has since eased to about 2.2%).

This was coupled with a massive migration from the countryside to the cities, a population movement sparked by industrialization and aggravated by the persistent drought cycle of the 1950s.

The land, finally, suffers from a shortage of water. Most of Mexico rests on a high plateau between the two arms of the Sierra Madre range; only 14% of the land is considered arable.

As pointed out in the accompanying discussion of the Mexican economy, the country has managed to survive an extremely difficult period and seems to be poised to become a major player in the world economy. Indeed, it is not an exaggeration to say that the possibility exists for Mexico to follow the path of other countries that moved from poverty to industrial wealth in recent decades. True, the country has an isolationist tradition, is crowded, has a deeply entrenched ruling party, and suffers from a shortage of good farmland.

Exactly the same things are true of Japan. And, also like Japan, Mexico's population is a major resource. Though there is room for much improvement, it is a surprisingly well-educated populace; 65% of Mexicans between the ages of five and 24 go to school, and there are more than a million teachers. The average educational attainment of the populace older than 15 is 6.3 years, and illiteracy is estimated to be less than 3.5%. While only about 5% of the populace are university or technical school graduates, the country has an extensive network of well-regarded (and inexpensive) universities and technical schools.

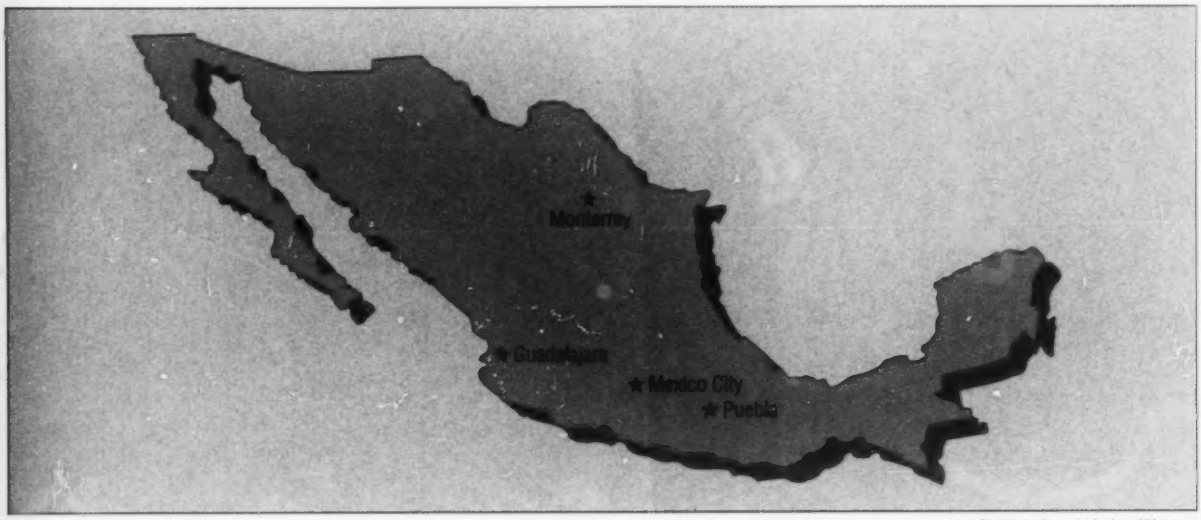
The United States of Mexico

State	Capital	Population
Aguascalientes	Aguascalientes	703,300
Baja California	Mexicali	1,418,100
Baja California Sur	La Paz	328,300
Campeche	Campeche	614,800
Coahuila	Saltillo	1,941,700
Colima	Colima	427,800
Chiapas	Tuxtla Gutierrez	2,555,900
Chihuahua	Chihuahua	2,265,400
Durango	Durango	1,399,400
Federal District	Mexico City	19,479,000
Guanajuato	Guanajuato	3,594,700
Guerrero	Chilpancingo	2,595,300
Hidalgo	Pachuca	1,842,900
Jalisco	Guadalajara	5,278,000
Mexico	Toluca	12,114,900
Michoacan	Morelia	3,412,500
Morelos	Cuernavaca	1,291,000
Nayarit	Tepic	858,400
Nuevo Leon	Monterrey	3,220,000
Oaxaca	Oaxaca	2,661,300
Puebla	Puebla	4,127,700
Queretaro	Queretaro	975,300
Quintana Roo	Chetumal	416,700
San Luis Potosi	San Luis Potosi	2,049,400
Sinaloa	Culiacan	2,424,200
Sonora	Hermosillo	1,837,100
Tabasco	Villahermosa	1,321,600
Tamaulipas	Ciudad Victoria	2,303,000
Tlaxcala	Tlaxcala	675,000
Veracruz	Jalapa	6,812,600
Yucatan	Merida	1,331,600
Zacatecas	Zacatecas	1,258,200

Principal Cities of Mexico

Some 30% of the population of Mexico lives in only three cities: Mexico City in the Federal District, Guadalajara, and Monterrey. Indeed, almost 23% of all Mexicans live in Mexico City, which, with 19,250,000 people, is far and away the largest city on earth. For the sake of comparison, Tokyo has a little over eight million, as does Bombay; New York has just over seven million.

City	Population
Mexico City, Federal District	19,255,000
Guadalajara, Jalisco	3,351,000
Monterrey, Nuevo Leon	3,051,000
Puebla, Puebla	1,885,000
Leon, Guanajuato	968,000
Torreon, Coahuila	779,000
Ciudad Juarez, Chihuahua	709,000
Merida, Yucatan	662,000
San Luis Potosi, San Luis Potosi	647,000
Tijuana, Baja California	641,000
Tampico, Tamaulipas	638,000
For comparison, here's the population of some major cities in the U.S.:	
New York	7,071,639
Chicago	3,055,072
Los Angeles	2,966,793
Philadelphia	1,688,210
Dallas	904,078
San Francisco	678,974
St. Louis	453,085



Charts and graphs by Lisa Hilgers

Mexico and the World

In 1986, as part of an overall drive on the part of the Mexican government to reorient the economy toward the world market, Mexico became a signatory to the General Agreement on Tariffs and Trade (GATT), to which most of the world's primary importers and exporters are parties.

Mexico is also a member of the Latin American Integration Association (known by its Spanish initials as ALADI), along with Argentina, Brazil, Bolivia, Colombia, Chile, Ecuador, Paraguay, Peru, and Venezuela. The long-term objective of ALADI is to establish a Latin American common market.

As far as the U.S. is concerned, Mexico is already our third-largest trading partner (after Canada and Japan), with two-way trade reaching more than $50 billion.

In 1989, oil and petroleum products accounted for about 16% of total U.S. imports from Mexico, making Mexico our fourth-largest such supplier. Mexico was also the third-largest single market for U.S. agricultural exports, importing $2.8 billion of U.S. agricultural goods. At the same time, Mexico was the second-largest supplier of U.S. agricultural imports, exporting nearly $2.3 billion of agricultural goods to the U.S.

Imports to and exports from the United States in 1989 accounted for roughly two-thirds of Mexico's total trade with all countries. In terms of manufactures, the percentages are even higher. Although greatly reduced in 1989, Mexico's surplus in its trade with the United States—averaging almost 60% of its global trade surplus during 1985-88—has been indispensable in enabling Mexico to meet its debt-servicing obligations.

Mexico/U.S. Trade Totals

Year	Total trade ($ billion, U.S.)
1989	$52.2
1988	43.9
1987	34.8

Top 10 U.S. Exports to Mexico in 1989

	(Billion $)
1. Motor vehicle parts	2.0
2. Telecommunications equipment & parts	1.0
3. Electrical switchgear apparatus	0.9
4. Equipment for distributing electricity	0.9
5. Cathode-ray tubes (incl. TV tubes)	0.6
6. Measuring & checking instruments	0.5
7. Internal combustion engines	0.5
8. ADP parts	0.5
9. Base metal manufactures	0.5
10. Corn	0.5

Top 10 U.S. Imports from Mexico in 1989

	(Billion $)
1. Crude petroleum	4.0
2. Equipment for distributing electricity	1.5
3. Autos	1.2
4. Motor vehicle parts	1.1
5. Telecom. equip. & parts	1.0
6. Electrical switchgear apparatus	0.9
7. Television receivers	0.9
8. Internal combustion engines	0.8
9. Radio receivers	0.7
10. Fresh/frozen vegetables	0.7

The Mexican Economy

During the 1980s, the Mexican economy underwent a crisis of huge proportions. The combination of a collapse of the oil market, heavy indebtedness, and high international interest rates set off an almost lethal mixture of runaway inflation and a severe depression. Between 1982 and 1988, overall output stagnated while real per-capita income and wages fell by more than 40%. Annual inflation rates soared into the triple digits.

In 1988, Carlos Salinas de Gortari, a Harvard-trained economist who is now 42 years old, was elected president, to serve the single six-year term as prescribed by law. His goal was to reduce the size of the bureaucracy and the nation's dependence on oil, and to reach out toward freer trade by privatizing many state-owned entities and relaxing foreign-investment rules.

In December 1988 the Mexican government and the primary economic sectors made an agreement called the Pact for Economic Growth and Stability (PECE). While the details are complex, in essence the pact furthered the process of privatizing formerly public economic sectors, lowering (and in many cases simply removing) trade barriers, and reforming the taxation system. In addition, Salinas accomplished a stunning coup: he renegotiated Mexico's foreign indebtedness, which had amounted to a staggering $100 billion, reducing substantially its outflow of capital.

These measures seem to be working. Inflation fell from 52% in 1988 to 19.7% in 1989, and economic growth increased from 1.4% to 2.9%. But foreign investment in Mexico still lagged, to the disappointment of Salinas. Following a quick tour of Europe to gauge progress there, the Mexican president stepped up his own pace; he announced he would privatize commercial banks, then said Mexico was open to free trade.

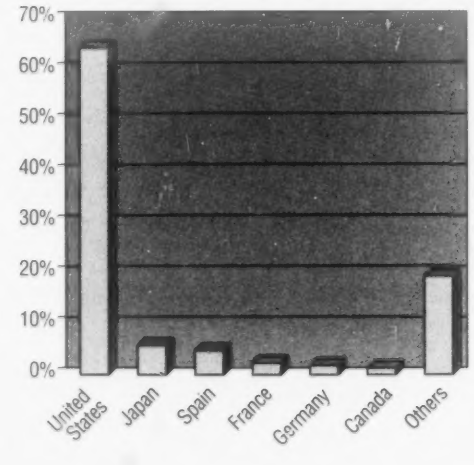
In December 1990 Salinas and Bush are to meet to begin the process of free trade agreements, similar to the pact with Canada that took effect in 1989.

The manufacturing sector, which includes printing and publishing, went through about the same trials during the 1980s as the rest of the economy.

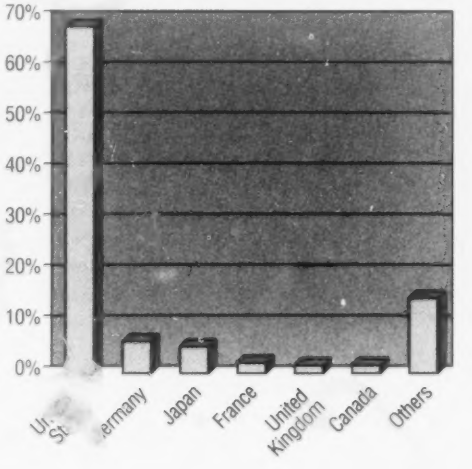
Manufacturing Production (1980 = 100)

Year	Value	Growth Rate	Exports ($ million, U.S.)
1980	100.0	7.8%	$3,382.9
1981	107.0	7.0%	3,427.3
1982	103.7	−3.1%	3,386.0
1983	95.9	−7.5%	4,582.7
1984	101.0	5.3%	5,594.8
1985	108.1	7.0%	4,978.0
1986	104.4	−3.4%	7,115.7
1987	108.5	3.9%	9,907.4
1988	111.0	2.3%	11,616.4

Exports by Principal Destinations



Permanent Imports by Principal Suppliers

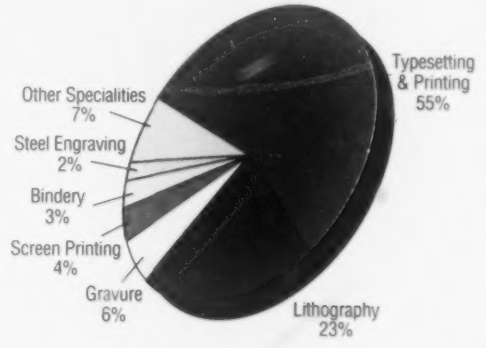


The Mexican Printing Industry

The Mexican printing and publishing industry comprises 6.5% of total local manufacturing companies, and accounts for 3% of total employment by industry; industry employment in Mexico is 120,000. Just as it is in the U.S. and Canada, the industry is somewhat more robust than its surroundings. During the period 1982-87, the paper, printing and publishing group—Great Division III, Division IV of the National Accounting System, of which printing and publishing is Item 32 (don't ask!)—grew 12.8% as compared to a growth rate for manufacturing as a whole of 3.5%.

There are 6,392 registered graphic arts firms in Mexico; they are primarily concentrated in Mexico City (53%) and in the states of Jalisco (9.4%) and Nuevo Leon (8.6%). That leaves 30% of the industry unaccounted for. In addition to the cities listed in this article, Mexico has around 50 rapidly growing urban areas, which account for most of the balance of at least the larger printing firms.

Composition of the Mexican Graphic Arts Industry



Largest Mexican Graphic Arts Firms

Screen Printing

Serigrafia Industrial y Comercial
Impresora y Serigrafica Hesketh
Publicidad Industrial Objetiva
Farias Process
Arte y Medios Publicitarios
Letraset de Mexico
Color Lite Mexicana
Procesadora de Plasticos Comerciales

Offset and Lithography

Prograsa
Formas para Negocios
Litografica Delta
Imprenta Madero
Lito Offset Atenas
Reproducciones Fotomecanicas
Galas de Mexico
Offset Multicolor
Lito Offset Latina
Impresora Simon
Artes Graficas Unidas

Binding

Ediciones Intercontinental
Encuadernacion Suari
Talleres Arte
Pupulibro
Encuadernaciones Finas

Publishing and Printing in Mexico

About 320 newspapers are published in Mexico, selling 10 million copies daily, 27% of them in Mexico City. Other states with significant newspaper activity are Coahuila, Chihuahua, Guanajuato, Jalisco, Mexico, Michoacan, Sinaloa, Tamaulipas, and Veracruz. Mexico has some 200 magazines with major circulation.

Approximately 900 firms are involved in the printing of newspapers, magazines, and other periodicals. Mexican exports of newspapers and other periodicals were $6.3 million (U.S.) in 1987, as opposed to $13.6 million in imports.

Book publishing is divided into textbooks and general readership (trade books). The government requires that textbooks be produced for some 25 million students; use of official textbooks is mandatory. About 60% of these textbooks are produced by the Mexican equivalent of the GPO, Talleres Graficos de le Nacion, the balance produced privately by contract.

Some 200 book-publishing companies issue around 10,000 titles per year (60% of them reprints). In 1986, some 80 million general readership books were printed. Since only 2% of the population buys books, the government is encouraging increased reading habits through weekly editions of low-priced books, opening libraries, and organizing periodic book fairs.

Finally, there are approximately 3,500 commercial printers, ranging from small shops to major enterprises. There are also 40 business forms printers, 290 packaging printers, and 600 companies in the various services industries.